

Message Text

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TO AMEMBASSY NASSAU IMMEDIATE

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EO 11652: NA

TAGSC EFIN, FB

SUBJ: BAHAMAS BANKING LEGISLATION

REF: NASSAU 1785

1. THE FEDERAL RESERVE BOARD, AS AUTHORIZING AGENCY FOR FOREIGN BRANCHES OF MOST US BANKS, HAS REVIEWED THE APPROPRIATENESS OF THE SO CALLED SHELL BRANCHES IN THE BAHAMAS ON SEVERAL OCCASIONS IN RECENT YEARS. THE BOARD HAS HAD MISGIVINGS ABOUT SANCTIONING SUCH BRANCHES, RECOGNIZING THAT FOR THE MOST PART THEY ARE MERELY A BOOKKEEPING DEVICE FOR FOREIGN LOANS AND DEPOSITS MADE FROM THE BANKS' HEAD OFFICES. PRINCIPLE REASON FOR AUTHORIZING SHELL BRANCHES HAS BEEN ONE OF EQUITY, IN ORDER TO PERMIT SMALLER BANKS WITHOUT LONDON OR OTHER FULL SCALE BRANCHES ABROAD TO DEVELOP THEIR INTERNATIONAL BUSINESS AT A TIME WHEN FOREIGN LENDING FROM US OFFICES IS RESTRICTED BY CAPITAL CONTROLS, PARTICULARLY THE VFCRP. SHELL BRANCHES HAVE ALSO BEEN AUTHORIZED FOR BANKS WITH LONDON BRANCHES BECAUSE OF DOUBLE TAXATION PROBLEMS. ALL AUTHORIZATIONS

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FOR SHELL BRANCHES CONTAIN THE CONDITION THAT THE AUTHORITY

ZATION IS GRANTED SUBJECT TO A CONTINUING REVIEW OF THE
BRANCH'S ACTIVITIES AND THAT IT MAY BE WITHDRAWN OR
MODIFIED AFTER DUE NOTICE.

2. ALL US BANKING LAWS RELATED TO FOREIGN ACTIVITIES
(INCLUDING SHELLS) ARE PRESENTLY UNDER REVIEW WITHIN THE
US GOVERNMENT.

3. TREASURY IS AVAILABLE IF EFFROS WISHES TO CONTACT THEM
CONCERNING FURTHER DETAILS ON BANK SECRECY AND SWISS
JUDICIAL ASSISTANCE AGREEMENT. KISSINGER

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